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C O N F I D E N T I A L SECTION 01 OF 02 SHENYANG 000133

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DEPARTMENT FOR INR, EAP/CM, EAP/K

E.O. 12958: DECL: TEN YEARS AFTER KOREAN UNIFICATION
TAGS: [PREL](#) [PINR](#) [PGOV](#) [ECON](#) [KN](#) [KS](#) [CH](#)
SUBJECT: NORTH KOREAN "NEOVIAGRA," MINERALS AND
DIFFICULTIES IN PRC-DPRK PARTNERSHIPS

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Classified By: CONSUL GENERAL STEPHEN B. WICKMAN.
REASONS: 1.4(b)/(d).

¶1. (C) SUMMARY: A visit to Dandong's second DPRK Import-Export Commodity Fair in late June highlighted China's interest in North Korean natural resources and the comparatively low wage rates on the North Korean side of the border. But contacts point out that further down the proverbial line, the success rate of joint Sino-North Korean projects can actually be rather low--near twenty percent in the experience of one trade facilitator. Chinese entrepreneurs and go-betweens, moreover, sometimes blame their North Korean counterparts for the failure of projects that the Chinese party has entered in bad faith, hoping to shop them around to other parties for a quick profit. END SUMMARY.

A MICROCOSM OF PRC-DPRK TRADE: "NEOVIAGRA" TO IRON ORE

¶2. (C) Poloff on a June 26 visit to Dandong attended the opening day of the second DPRK Import-Export Commodity Fair, hosted by the Panjin Asia-Pacific Procurement/Bidding Company, a private Liaoning firm specializing in PRC-DPRK trade facilitation. Showcasing over twenty North Korean state-owned enterprises (SOEs) and close to ten private Chinese firms, the modest affair ventured to match North Korean exhibitors with prospective joint-venture partners and/or buyers from the several hundred Chinese business representatives--mostly from small- and medium-sized enterprises--that attended.

¶3. (U) Small-business representatives, many from Dandong and its environs, appeared to greet the majority of DPRK exhibitors--who touted everything from beauty/health goods and seafood products to apparel/shoes, handicrafts and jewelry--with modest interest. Some of the more unusual offerings on display included North Korean "NeoViagra" (RMB 40, or USD 5 per box) and an apparently miraculous health supplement specifically for cirrhosis, hepatitis, ulcers and "poor nutrition for children." More mystifying to many attendees was a collection of North Korean "polarized light rings," which for RMB 400 (USD 52) promised to clean the blood, reduce headaches and regularize blood pressure.

14. (C) The fair's main attraction--this, clearly for larger, more serious Chinese firms--seemed to be the North Korean purveyors of sundry raw or processed minerals and related finished products. These ranged from iron ore (displayed in small, glass jars), titanium and magnetite to pig iron, ferrosilicon and hot-rolled steel plates. The heavyweight here was the North Korea Ferrous Metals Import-Export Corporation, according to Panjin Asia-Pacific's manager, LIU Feng (strictly protect), who organized the event. A surprising number of Chinese representatives flocked to and lingered at the corporation's booth, chatting with North Korean representatives who pulled out and offered interested Chinese representatives glossy, professional-looking catalogues, product samples, photos and promotional literature.

15. (C) North Korean exhibitors paid between RMB 3000-5000 (USD 400-650) per booth for all four days of the fair, according to Liu, who noted the appreciable growth in the scope of products and the number of participants over last year. Liu expected that the North Korean exhibitors would ink a number of agreements with Chinese companies by the closing day (June 29), although some projects would eventually not be carried out, as Liu said happened last year. The benefits of low labor costs are a particular driver for the small- and medium-size Chinese firms attending the event, according to Liu, who travels to the DPRK on a monthly basis. He claimed that the average salary for a North Korean worker on projects he has facilitated ranges from about RMB 20-30 (USD 2.6-4) per month. The same worker's salary in northeast China would cost RMB 700-800 (USD 92-105) per month, he said.

DIFFICULTIES IN PRC-DPRK COOPERATION: AN ALTERNATIVE TAKE

16. (C) A recurring (though hardly dominant) theme in our
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discussions with contacts like Liu Feng is the uncertain success rate of PRC-DPRK projects, a good percentage of which are never actually carried out. Chinese businessmen typically blame their North Korean partners for this, citing their lack of credibility and unwillingness to honor contracts; the substantial risks involved in operating in North Korea; cumbersome bureaucratic hurdles; and a long litany of other, familiar shortcomings.

17. (C) There are some exceptions, however, like the views of LIU Chensheng (strictly protect), a former Shenyang trade official who facilitates PRC investment under the aegis of the Korean Liaison Office of the Liaoning Province Civilian Entrepreneur Association. Liu, who visits the DPRK once or twice per month and regularly hosts North Korean business delegations in China, told Poloff on May 31 that unscrupulous Chinese businessmen are sometimes also at fault. Liu explained that, once approved by Pyongyang, joint PRC-DPRK projects are typically "assigned" to local governments who then have to directly hammer out the details with the Chinese businesses involved. Some Chinese businessmen Liu said he has encountered negotiate with local DPRK officials without ever intending to invest: rather, agreement in hand, they attempt to sell the participation rights to other Chinese for a profit. It is at this stage, Liu contended, that the ventures tend to fall through, the original "partner" blaming the DPRK for "not honoring its contract."

18. (C) Liu Chensheng estimates that the success rate of ventures he has facilitated is low, perhaps twenty percent. Given this track record and thanks to the advice of a friend in the Korean Workers' Party Central Committee, he claims he has learned to terminate his involvement once he has linked the interested parties together. This way he claims he can avoid having dissatisfied partners on either side of the border blame him for any subsequent

difficulties.

19. (C) NOTE: Liu, as a booster for PRC-DPRK trade, is generally quite sunny about operating in the DPRK, one possible reason why he may have put more of the blame for certain unfulfilled PRC-DPRK ventures on the side of self-serving Chinese businessmen. He is quick to admit, however, the significant risks confronting PRC investors in the DPRK, highlighting the range of variables (and the behaviors of officials) in North Korea that create a less-than-ideal investment climate. END NOTE.

WICKMAN